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Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 PM-04 NSC-05 SP-02 SS-15 CIAE-00
DODE-00 INR-07 NSAE-00 PA-01 USIA-06 PRS-01 AID-05
EB-08 OMB-01 TRSE-00 IGA-02 /068 W
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E.O. 11652: N/A
TAGS: EAID, IN
SUBJECT: AID TO INDIA

1. ARTICLE TITLED QUOTE INDO-US CONTACTS FOR AID LIKELY UNQUOTE APPEARED FRONT PAGE THIS MORNING'S STATESMAN. ARTICLE REPEATED IN FULL BELOW: QUOTE

THE FIRST CONTACTS BETWEEN THE INDIAN GOVT AND THE U.S. ADMINISTRATION ON THE QUESTION OF RESUMPTION OF U.S. AID TO THIS COUNTRY ARE EXPECTED TO BE MADE AT THE END OF THIS MONTH WHEN MR. H. M. PATEL, MINISTER OF FINANCE, WILL BE IN WASHINGTON.

THERE HAS BEEN NO AID EXCEPT FOR PL-480 FOOD LOANS AND SOME DEBT RELIEF SINCE PRESIDENT NIXON SUSPENDED U.S. ASSISTANCE TO INDIA DURING THE 1971 WAR WITH PAKISTAN OVER BANGLADESH. THIS YEAR, EVEN THE USUAL DOLS 85 MILLION CONTINGENCY PROVISION IN THE BUDGET PRESENTED TO CONGRESS BY PRESIDENT CARTER HAS NOT BEEN MADE.

BUT THERE HAVE BEEN SEVERAL HINTS FROM BOTH SIDES THAT FOLLOWING THE RESTORATION OF DEMOCRACY IN INDIA, INDO- U.S. RELATIONS SHOULD BE NORMALIZED. AT LEAST ON THE ECONOMIC LEVEL, THIS RELATES TO THE AID QUESTION. INDICATIONS ARE THAT THE CARTER ADMINISTRATION IS UNWILLING TO BROACH THE SUBJECT IN VIEW
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OF THE PROBLEMS THAT U.S. AID HAS CREATED IN THE PAST,

THAT AID WILL BE RESUMED IF SOUGHT IS CERTAIN, AND THIS IS AN ISSUE THAT THE NEW GOVT WILL ITSELF HAVE TO DECIDE BEFORE MR. PATEL LEAVES FOR WASHINGTON PRIMARILY FOR THE PURPOSE OF ATTENDING MEETINGS OF INTERIM COMMITTEE OF THE INTERNATIONAL MONETARY FUND AND THE JOINT FUND-WORLD BANK DEVELOPMENT COMMITTEE

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AS WELL AS THAT OF THE "GROUP OF 24" (DEVELOPING NATIONS).
MR. PATEL WILL TAKE THE OPPORTUNITY TO MEET HIS COUNTERPART IN
THE U.S. ADMINISTRATION AND IF THIS MEETING IS TO BE MORE THAN
JUST A COURTESY CALL, THE FINANCE MINISTER WILL NEED TO BE GIVEN
DIRECTIVES BY THE CABINET ON WHETHER HE SHOULD SEEK AID.

THAT INDIA STILL NEEDS FOREIGN AID DESPITE THE RISING
FOREIGN EXCHANGE RESERVES (NOW AT A RECORD LEVEL OF RS. 2,800
CRORES) IS BORNE OUT BY A REPORT ON THE INDIAN ECONOMY JUST
FINALIZED BY THE WORLD BANK FOR CONSIDERATION OF THE AID INDIA
CONSORTIUM WHICH IS TO MEET IN PARIS NEXT SUMMER.
THE REPORT IS BELIEVED TO HAVE DRAWN ATTENTION TO THE RELATIVELY
POOR PERFORMANCE OF THE ECONOMY IN 1976-77 WHEN THE RATE OF GROWTH
IS PLACED AT JUST AROUND 2 PERCENT, MAINLY BECAUSE OF A SHARP
DROP IN AGRICULTURAL PRODUCTION OWING TO ERRATIC WEATHER
CONDITIONS. IT HAS POINTED OUT THAT THERE IS A GAP OF 2
PERCENT BETWEEN THE SAVINGS AND INVESTMENT RATE AND THIS MUST BE
FILLED BY FOREIGN AID OF DEVELOPMENT IS TO PROGRESS.

GROSS CONSORTIUM AID FOR THE CURRENT FINANCIAL YEAR IS ANTICI-
PATED AT RS. 1,294.58 CRORES, THE HIGHEST EVER BUT WHICH DOES
NOT INCLUDE U.S. AID. THIS COULD STILL BE GIVEN--AND THE GROSS
AID FIGURE MADE HIGHER--IF IMMEDIATE CONTACTS ARE MADE FOR RE-
SUMPTION OF U.S. AID.

AS IN PREVIOUS YEAR SINCE 1972, A U.S. REPRESENTATIVE WILL BE
PRESENT AT THE CONSORTIUM MEETING BUT HE WILL MAKE PLEDGES
FOR AID ONLY IF INSTRUCTED BY HIS GOVT WHICH WILL THEN NEED TO
SEEK SPECIAL APPROVAL FROM CONGRESS. IN VIEW OF THE FAVORABLE VIEW
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TAKEN OF INDIA IN THE USA, THIS SHOULD NOT BE A PROBLEM.

THE FAVORABLE VIEW IS ALSO EXPECTED TO GO IN FAVOR OF INDIA ON THE
QUESTION OF THE SHARE OF AID THAT THS COUNTRY SHOULD GET FROM THE
INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA), THE WORLD BANK'S
SOFT-LOAN AFFILIATE. ITS FIFTH REPLENISHMENT OF DUNDS IS NOW
CERTAIN, PARTLY BECAUSE OF A U.S. PLEDGE, BUT THERE IS A MOVE THAT
INDIA'S USUAL SHARE OF 40 PERCENT OF IDA LOANS SHOULD BE REDUCED.
ONE OF MR. PATEL'S TASKS WILL BE TO MAKE SURE THAT THIS DOES
NOT HAPPEN WHEN HE MEETS MR. ROBERT MCNAMARA. UNQUOTE

COMMENT: JOINT SECRETARY, MOF TOLD ECONOMIC COUNSELOR ARTICLE
WAS WRITTEN BY NEWSPAPERMAN "WHO HAD OBVIOUSLY TALKED TO A LOT OF
PEOPLE". HE PREFERRED NOT TO MAKE ANY FURTHER COMMENT ON ARTICLE
BUT ADDED THAT MINISTER HAD NOW BEEN FULLY BRIEFED AND WAS AWARE
OF ALL THE ISSUES INVOLVED. DECISION ON WHAT MINISTER WOULD
DISCUSS IN WASHINGTON WAS A POLITICAL ONE AND IS BEING DETERMINED
AT POLITICAL LEVEL.
SCHNEIDER

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